

**Policy  
Reports  
on  
Targeted  
Social  
Assistance  
in  
Ukraine**

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**CHANGES IN NORMATIVE ACTS OF UKRAINE ON  
SOCIAL PROTECTION: JULY 1997 - MARCH 1998**

**Conclusions**

- ☐ President Leonid Kuchma approved "Main Directions of Social Policy for 1997-2000" by Decree, dated 10.18.97. The plan defines ways to reform systems for paying wages, pensions, social insurance, and social assistance. It also calls for the creation of a system to monitor social processes to study poverty and strengthen social protection for low income families.
- ☐ The social protection system will be reformed to target social support of low income families with a priority on assisting invalids.
- ☐ Pension reform will be implemented in stages between 1998 and 2000. Minimum pensions will be increased toward the poverty level based on pension system reforms. The amounts of pension benefits will depend on people's length of service and amount of mandatory contributions to the Pension Fund, made by employees and their employers.
- ☐ The number of laws passed by the Supreme Rada connected with social protection increased on the eve of elections.
- ☐ The Housing subsidy program is considered to be the most targeted of all social assistance programs, since the amount of subsidy depends directly on people's income. Calculation norms of housing and communal services are being implemented to simplify procedures for granting subsidy. The system to audit information submitted by applicants will be implemented.
- ☐ The question of the percent of the actual cost of housing and communal services to be paid by the population after the change of costs for electricity and gas in 1997 was not discussed nor were accounting procedures reformed. So, the share families really pay is not clear.
- ☐ A comprehensive and centralized computer system to maintain accounts for communal services payments is being implemented in several cities of Ukraine.

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## SECTION I.

### Review of Basic Provisions of 48 Normative Acts on Social Protection Enacted July 1, 1997 - March 31, 1998

Between July 1997 and March 1998, 48 normative acts were passed, including 16 Laws and 1 Resolution of the Supreme Rada of Ukraine (SR), 7 Decrees of the President of Ukraine, 18 Decree of the Cabinet of Ministers (CM). Ta-

bles 1 and 2 present basic provisions of these normative documents. Of these acts, 3 apply to pensioners, 2 to invalids, 14 apply to all the population, and the rest apply to different categories of the population and executive bodies.

**Table 1. List of principal normative documents on social protection passed in Ukraine between July 1997 and March 1998**

<i>No</i>	<i>Title of a Normative Document</i>	<i>Categories of Persons to whom the Normative Act Applies</i>	<i>Major Provisions Introduced or Amended</i>
<b>Social Protection</b>			
1.	Decree of the President dated 10.18.97, No 1166/97 "On Major Social Policy Guidelines for 1997-2000." Comes into effect on 11.9.97.	The population	<p>By this Decree the President approved "Major Social Policy Guidelines for 1997-2000" submitted by the CM.</p> <ul style="list-style-type: none"> <li>◆ To improve labor remuneration and incomes of the population, the role of a minimum wage as a social normative that ensures protection for lower-paid salaried workers must be strengthened by: <ul style="list-style-type: none"> <li>a) Stepwise closing (till the end of 1999) of a minimum wage to the subsistence level;</li> <li>b) Gradual increase (within a five year period) of a minimum wage to 60% of an average wage.</li> </ul> </li> <li>◆ Reform of the system of <b>social insurance</b> that will redistribute liability for personal social security among the state, employers, and employees. A personified record keeping of insurance contributions of some types of insurance will be gradually expanded to cover all types of insurance.</li> <li>◆ A reform of the <b>pension system</b> that will provide for a transfer to a pension security based on insurance principles with the following types of pensions: <ul style="list-style-type: none"> <li>• Labor pension – at the expense of insurance contributions, and for some categories (servicemen, state employees, etc.) – at the expense of the state budget;</li> <li>• Social pension – financed by local budgets;</li> <li>• Supplementary pension – provided by non-state pension insurance institutions.</li> </ul> </li> </ul> <p>Depending on total family income, social pensions during a transition period, will be supplemented by targeted payments: social payments will be financed by local budgets with state assistance.</p> <ul style="list-style-type: none"> <li>◆ Reform of the <b>system of social assistance</b> that will expand targeted social assistance provided to low-income groups of the population, with an initial focus on the disabled. To estimate an assistance benefit, the financial situation of a family and the value of subsistence level will be</li> </ul>

			<p>taken into consideration. Instead of privileges provided to separate categories of the population, targeted assistance will be introduced. In this connection the law on social assistance should be elaborated and passed.</p> <ul style="list-style-type: none"> <li>◆ Improvement of a mechanism of distributing <b>housing subsidies</b> that will include: <ul style="list-style-type: none"> <li>• An introduction of calculated norms of housing and communal services that depend on a number persons that occupy a particular dwelling which is aimed at simplifying procedures of assigning housing subsidies;</li> <li>• Auditing information submitted by applicants will be introduced for its verification and examining legitimacy of granting assistance. With this end in view, information of the State register of individual tax payers on incomes of individuals that apply for assistance will be used.</li> </ul> </li> <li>◆ Creation of a national <b>system of monitoring</b> social and labor processes that will study poverty and survey low-income families. Improvement of a statistical procedure of surveying households of such families. Introduction of system for declaring family incomes when applying for targeted assistance.</li> <li>◆ Introduction of targeted privileges assigned to war and labor veterans, regulation of a system of social guarantees (medical, communal, health-resort services).</li> </ul>
2.	Decree of the CM dated 4.2.98 No 422 "On Measures of Implementing Major Social Policy Guidelines for 1997-2000." Comes into effect on 9.2.97.		Approval of measures of implementing major social policy guidelines for 1998-2000 set forth in Decree of the President No 1166/97.
3.	Decree of the President dated 8.18.97 No 298/97 "On Urgent Measures of Speeding Up Reforms and Improving Ukrainian Economy." Comes into effect on 9.2.97.		The CM is charged with elaborating and implementing a system of urgent measures in the sphere of social policy for 1997-1998 that must include: payment of wage and pension arrears, improvement of a system of wage payments, introduction of a pension reform, regulation of employment, restructuring housing policy.
4.	Law "Legislative Principles of Ukraine on Mandatory State Social Insurance" dated 1.14.98, No 16/98-BP. Comes into effect on 9.2.97.	The population	<p>In compliance with the Constitution of Ukraine, these principles determine general legislative, financial and organizational provisions of mandatory state social insurance (further - insurance).</p> <p>Employers and policy holders are <b>insurers</b>.</p> <p>An individual who benefits from insurance is an <b>insured</b>. The insured are members of corresponding insurance funds.</p> <p>Subjects of insurance include:</p> <ul style="list-style-type: none"> <li>• Individuals employed on conditions of a labor agreement by other individuals, at enterprises, organizations, agencies irrespective of the form of ownership;</li> <li>• Self-employed individuals (members of creative unions, artists that do not belong to creative unions), businesspersons;</li> <li>• Ukrainian citizens that work abroad may be insured on condition of payment of insurance contributions.</li> </ul> <p>According to each type of insurance targeted insurance funds shall be insurers in:</p>

			<ol style="list-style-type: none"> <li>1) Pension insurance;</li> <li>2) Medical insurance;</li> <li>3) Temporary disability insurance, burial and birth expenses insurance;</li> <li>4) Industrial accident and occupational disease insurance;</li> <li>5) Unemployment insurance.</li> </ol> <p>Sources of financing:</p> <ul style="list-style-type: none"> <li>• Insurance contributions. They are determined annually by the Supreme Rada in percentages correspondingly for employers and the insured for every type of insurance for a term of one calendar year at the same time with an approval of the State budget.</li> <li>• Budget and other sources.</li> </ul> <p>Financial resources of targeted insurance funds are not included in the State budget.</p>
5.	<p>Law "On Establishing Cost Value of Subsistence Level and Minimum Wage for 1998" dated 12.24.97, No 780/97-BP.</p> <p>Comes into effect on 1.1.98.</p>	The population	<p>From 1.1.98 a subsistence level is equal to Hrn 73.7.</p> <p>With the aim of gradually drawing together a subsistence level and a minimum wage, from 1.1.98 the latter is established at the level of Hrn 45. A minimum wage is revised quarterly at the same time with specifying figures of the State budget.</p> <p>Until the Supreme Rada does not pass amendments to laws, a minimum wage is not used as a calculated value for determining amounts of assistance benefits, compensation and other payments.</p>
6. 7. 8.	<p>Law "On National Information Program" dated 2.4.98, No 74/98-BP</p> <p>Law "On Concept of National Information Program" dated 2.4.98 No 75/98-BP</p> <p>Law "On Approving Objectives of National Information Program for 1998-2000" dated 2.4.98 No 76/98-BP</p> <p>All come into effect on 4.7.98.</p>		<p>The main goal of the information program in the sphere of social protection is the development of program systems and means for administrative and regional structures of all levels, analysis and simulation of employment processes, prevention of mass unemployment. Information know-how that excludes delays in the transfer and payment of pension benefits and assists in accounting current amendments introduced to legal and other normative acts should be turned over to social protection agencies. Local computer networks of social protection agencies should be created and combined into a unified information computer network of a social protection system</p>
9.	<p>Law "On Status of Veterans of Military Service and Their Social Protection" dated 3.24.98 No 203/98-BP</p> <p>Comes into effect simultaneously with the Law "On State Budget of Ukraine for 1999"</p>	Veterans of military service	<p>Citizens of Ukraine that faultlessly served 25 and more years and were transferred to the reserve or retired, also invalids of the first and second group must be regarded veterans of the military service (further - veterans).</p> <p>Privileges:</p> <ul style="list-style-type: none"> <li>• Provision of health resort vouchers at a 75% discount for veterans and a 75% discount for members of their families;</li> <li>• Free round trip travel within Ukraine once every two years by railway sleeping car, or water or motor intercity transport for a medical treatment in a health resort;</li> <li>• 50% discount for housing and communal services for veterans and members of their families that live together with them, and also their widows within limits specified by the legislation or a 50% discount on the cost of fuel, including liquid fuel, within established limits for persons that reside in apartment houses without central heating.</li> </ul>

10.	Law "On Introduction of Amendments to Law of Ukraine "On State Guarantees of Recovery of Savings of Citizens of Ukraine" dated 3.24.98 No 201/98-BP. Comes into effect on 4.24.98.	The population	A list of categories of depositors, priority of index-linked savings and amount of payments within limits allocated by the State budget must be determined by the Cabinet of Ministers (previously by the Supreme Rada). An amount of payment paid by the Savings Bank to heirs of deceased depositors is reduced fivefold. From now on it equals an amount of the state burial assistance.
11.	Resolution of the SR dated 7.17.98 No 472/97-BP "On Payment of Savings of Depositors by Branches of Savings Bank of Ukraine in Compliance with Law of Ukraine "On State Guarantees of Recovery of Savings of Citizens of Ukraine." Comes into effect on 7.31.97.	The population	To accomplish payments in 1997 of savings deposited prior to 1.2.92 in branches of the Savings Bank of the former USSR for a total amount of Hrn200 million to citizens of Ukraine who are 80 years or older - at the rate of Hrn48, to heirs of depositors - at the rate of the state burial assistance.
12.	Decree of the CM dated 12.20.97, No 1427 "On Approving Regulations on Procedures of Recovering Loss of Earnings to Employees due to Violation of Terms of Wage Payment." Comes into effect on 1.1.98.	Employees	Compensation must be paid by enterprises, establishments, and organizations if payment of wages, beginning from January 1, 1998, are delayed over one month or more and if the price index on consumer goods and tariffs for services for the same period grows over 1%. The amount of compensation is calculated by multiplying an amount of a calculated wage for a month (after deduction of taxes and payments) by the percentage increase in consumer prices.
13.	Decree of the President dated 7.25.97, No 705/97 "On Establishing Ministry of Labor and Social Policy of Ukraine." Comes into effect on 8.5.97		The Ministry of Labor and Social Policy of Ukraine is established on the basis of the Ministry of Labor and the Ministry of Social Protection of the Population, which are dissolved.
14.	Law "On Ratification of Credit Agreement (Draft of Approval of Social Protection) Between Ukraine and International Bank for Reconstruction and Development" dated 11.4.97, No 613/97-BP. Comes into effect on 11.29.97.		Under this project, Ukraine will be granted a \$2.6 million loan to be spent on: <ul style="list-style-type: none"> <li>• Computerization of data and application processing – computers will be installed in housing subsidy offices;</li> <li>• Creation of an information management system – regional subsidy departments will form a unified computer network with the Ministry of Labor and Social Policy;</li> <li>• Professional training of specialists of subsidy offices and departments.</li> </ul> It is planned that the project will continue until 12.31.98. The credit will be repaid by the State budget between 2003 and 2013.
15.	"General Agreement Between Cabinet of Ministers of Ukraine and Ukrainian Union of Industrialists and Businesspersons and Trade Unions of Ukraine for 1997-1998" concluded on 10.18.97		The Cabinet of Ministers and trade unions concluded an agreement on cooperation in implementing a joint social-economic policy in Ukraine.
<b>Housing Subsidies</b>			
16.	Decree of the CM dated 9.22.97, No 1050 "On Measures of Further Improving Provision of Subsidies to Population for Reimbursing Expenses for Housing and Communal Services, Purchase of Liquid Gas, Solid and Furnace (Liquid) Fuel." Comes into effect on 9.25.97.	The population	A new wording of Regulations on procedures of assigning and providing subsidies to the population is approved (the last wording was approved by the decree No 848 dated 10.21.95) that significantly simplifies a mechanism of their assignment. In particular, several innovations are introduced for single disabled pensioners, invalids and individuals that cannot pay for housing and communal services due to wage, pension and social payment arrears.

			A system of permanent auditing of budget means allocated for subsidies and information submitted by subsidy applicants is introduced.
17.	Decree of the CM dated 2.4.98, No 119 "On Amount of Expenses on Housing and Communal Services, Purchase of Liquid Gas, Solid and Furnace Consumer (Liquid) Fuel if Housing Subsidy is Assigned." Comes into effect on 2.12.98.	The population	This decree summarized provisions set by several previous decrees. It specifies that, in case of an assignment of a housing subsidy for housing and communal services, individuals registered in a given dwelling pay 15% of an average monthly total income, and for a purchase of liquid gas, solid and furnace consumer (liquid) fuel – 15% of annual total income within specified norms for a total floor space and established norms of consumption of the above mentioned services. Individuals granted subsidies for housing and communal services, purchase of liquid gas, solid and furnace consumer (liquid fuel) must pay for them within 15% of an average monthly total income.
18.	Order of the Ministry of Labor, Ministry of Finance and Ministry of Justice dated 12.29.97, No 39/283/90/5 "On Approving Procedures of Repayment of Overpaid Subsidies" registered in the Ministry of Justice on 12.31.97, No 634/2438. Comes into effect on 1.10.98.	Housing subsidy recipients	The Procedures state that repayment of overpaid subsidies is accomplished in the following cases: <ul style="list-style-type: none"> <li>• If a person deliberately submits incorrect information, the overpayment must be repaid in double amount;</li> <li>• If there is a mistake in a subsidy calculation (only repayment of overpayment);</li> <li>• If an income certificate issued by a legal entity contains incorrect information (only repayment of overpayment).</li> </ul>
19.	Order of the Ministry of Labor, Ministry of Finance, Ministry of Economy and State Committee for Construction dated 12.25.97, No 38/284/145/65 "On Approving Procedures on Auditing Targeted Use of Budget Means Allocated for Subsidies to Population" and registered in the Ministry of Justice on 1.12.98, No 10/2450. Comes into effect on 1.22.98.		The Regulations sets the following conditions for auditing a targeted use of budget means allocated for granting subsidies to the population: <ul style="list-style-type: none"> <li>• Correctness of calculating tariffs for housing and communal services;</li> <li>• Correctness of calculating, timeliness of transferring and a targeted use of means allocated to subsidy departments for payment of housing subsidies;</li> <li>• Authenticity of income information used for assigning housing subsidies;</li> <li>• Correctness of calculating a subsidy benefit.</li> </ul>
20.	Letter of the State Tax Administration dated 9.25.97, No 17-0117/10-7659 "On Determining Total Family Income for Assigning Housing Subsidies." Comes into effect on 9.25.97.	Recipients of housing subsidies	Housing subsidies are assigned to individuals engaged in business activities on the basis of certificates issued by tax administrations that state incomes earned by these individuals, i.e. income subject to taxation to be fully included in a total family income.
<b>Pensioners</b>			
21.	Law "On Amendments Introduced to Law of Ukraine "On Pension Security" (with amendments introduced in compliance with Law No 132/98-BP dated 2.13.98) dated 6.4.97, No 307/97-BP. Comes into effect on 11.4.97.	Pensioners	A minimum old age pension is established as equal to a minimum consumer budget. Under conditions of an economic crisis and production setback a minimum old age pension is established as equal to a subsistence level (Hm 73.7 from 1.1.98) A minimum old age pension is raised if the cost of a consumer budget or subsistence level also increase. A restriction on a wage amount for calculating pensions is lifted (article 64 of the Law "On Pension Security").
22.	Decree of the CM dated 12.8.97, No 1357 "On Wage Level Adjustment for Calculating Pension Benefits." Comes into effect on 12.18.97.	Pensioners	Execute pension recalculation from 11.4.97 as a result of canceling restrictions on wage levels.
23.	Decree of the CM dated 12.8.97,	Pensioners	From 3.1.98 a maximum pension benefit is increased:

	No 1375 "On Pension Increase." Comes into effect on 12.18.97.		<ul style="list-style-type: none"> <li>For an old age pension – by Hrn 10, at present it amounts to Hrn 59.86;</li> <li>For employees that have a full employment period working underground, in adverse and severe conditions of labor – by Hrn 20, now it comprises Hrn 86.48.</li> </ul> <p>The Ministry of Finance and the Pension Fund are charged to accomplish a stepwise delimitation of sources of financing pension payments beginning from the second quarter of 1998.</p>
24.	Decree of the CM dated 1.24.98, No 75 "On Additional Measures on Recovering Mandatory Payment Debts of Enterprises, Establishments and Organizations to Pension Fund." Comes into effect on 1.24.98.		Procedures of recovering mandatory state insurance payment debts as on April 1, 1997, by issuing a bill on debt are approved.
<b>Budget Sphere Employees</b>			
25.	Law "On Amendments Introduced to Article 18 of Law Of Ukraine "On Fire Safety" dated 11.5.97, No 618/97-BP. Comes into effect on 11.29.97.	Personnel of the state fire protection service	Eligibility for a free travel is canceled. For the term of discharging their duties, firemen are provided with tickets for all types of public municipal, local and inter city transportation (except taxi).
26.	Decree of the CM dated 8.27.97, No 922 "On Repayment of Travel Expenses to Some Categories of Workers of Budget Establishments and Organizations for Discharging Their Duties (with amendments introduced in compliance with Decree of the CM No 244, dated 3.2.98. Comes into effect on 8.22.97	Budget organization employees	A procedure is approved that explains how budget organizations may repay their employees travel expenses. Earlier the Supreme Rada canceled free travel privileges for several categories of workers.
<b>Mandatory Payments to State Funds, Use of Money Allocated for Social Assistance</b>			
27.	Law "On State Budget of Ukraine for 1998" dated 12.30.97, No 796/97-BP. Comes into effect on 1.1.98.	The population	Social protection and social assistance budget allocations comprise Hrn 1.985 billion or 8.1.% of total budget expenditures (which is by 0.09% more compared to 1997).
28.	Decree of the CM dated 3.30.98, No 396 "On Approving Procedures on Charging Fee to Chernobyl Fund." Comes into effect on 2.1.98.	Payers of mandatory tax allocations to the Chernobyl Fund	The procedure determines a mechanism of charging fees to this Fund and specifies corresponding expenditures.
29.	Law "On Amendments Introduced to Law of Ukraine "On Levy on Mandatory Social Insurance" dated 12.30.97, No 800/97-BP. Come into force on 2.1.98.	The population	Besides the levy on mandatory social insurance against unemployment, taxpayers pay the levy on mandatory social insurance to the account of the Fund of Social Insurance of Ukraine (Previously it was paid to the State Budget). A special board supervises financial policy of the Fund.
30.	Law "On Introducing Amendments to Article 4 of Law of Ukraine "On Levy on Mandatory State Pension Insurance" dated 12.3.97, No 680/97-BP.	Enterprises that employ invalids	Enterprises that belong to Ukrainian public organizations of invalids with a number of disabled comprising at least half of the personnel, social insurance deductions are reduced to 1% and deductions to the Pension Fund – to 4% of the object of taxation for all employees of these enterprises (for all other enterprises these deductions comprise 4% and 32% correspondingly).
31.	Law "On Introducing Amendments to Article 4 of Law of Ukraine "On Levy on Mandatory State Social Insurance" dated 12.3.97, No 686/97-BP. Both come into force on 12.27.97.		
32.	Decree of the CM dated 8.7.98,		Auditing of a targeted and efficient use of funds re-

	No 703 "On Use of Budget and Off-Budget Means in 1996 and First Quarter of 1997 by Ministry of Coal Industry, Ministry of Social Protection of Population, Ministry of Communications, State Geological Committee." Comes into effect on 1.1.98.		vealed unlawful expenditures in all regions: <ul style="list-style-type: none"> <li>• Hrn 2.4 million – by social protection agencies;</li> <li>• Hrn 0.53 million from local budgets – for payment of housing subsidies that were assigned on the basis of certificates issued by enterprises, organizations and corresponding executive bodies with incorrect income information and other indices and that concealed real incomes earned by applicants.</li> </ul> <p>The Ministry of Labor and Social Policy was charged to elaborate a draft decree of the CM on organizing auditing and targeted use of funds allocated for housing subsidies and propose amendments and additions to the Code of Ukraine on administrative delinquency as to imposing administrative sanctions on officials and applicants who submitted incorrect income information which resulted in the unlawful assignment of subsidies and other types of social assistance.</p>
<b>Invalids</b>			
33.	Decree of the CM dated 9.8.97, No 999 "On Approving Procedures of Providing Motor Vehicles to Invalids." Comes into effect on 9.18.97.	Invalids	The Decree determines procedures of providing motor vehicles to invalids. It specifies either a free of charge motor vehicle or its sale for 7% or 30% of its value.
34.	Decree of the CM dated 3.17.98, No 296 "On Approving Regulations on Repayment of Cost of Fuel, Repair and Maintenance of Motor Vehicles to Invalids." Comes into effect on 4.2.98.	Invalids	The cost of fuel, repair and maintenance of motor vehicles is repaid to invalids that are eligible to receive motor vehicles from the state.
<b>War Veterans</b>			
35.	Decree of the President dated 11.27.97, No 1309/97 "On Approving Regulations on Committee for Veterans of War and Foreign Military Conflicts Under Cabinet of Ministers of Ukraine." Comes into effect on 12.24.97.		This Committee was established out of the Committee for Veterans of the Afghan War and military conflicts in foreign countries, under the President of Ukraine, and the Veterans Committee, under the President of Ukraine. The new committee is subordinated to the CoM.

**Table 2. List of principal normative documents of Ukraine on housing and communal services passed between July 1997 and March 1998**

No	Title of Normative Document	Categories of Persons that This Normative Document Applies to	Provisions Introduced or Amended (Principal Aspects)
1.	Decree of the President dated 8.11.97, No 773/97 "On Establishing State Committee for Construction, Architecture and Housing Policy of Ukraine." Comes into effect on 8.22.97.		This Committee was created on the basis of the State Committee of Ukraine for Bridge Engineering and Architecture and the State Committee for Housing and Municipal Economy of Ukraine, which are both dissolved.
2.	Decree of the President dated 12.9.97, No 1342/97 "On Regulations on State Committee for Construction, Architecture and Housing Policy of Ukraine."		The State Committee participates in forming and realizing the national housing policy, national scientific and economic policy in the sphere of bridge engineering, construction, and municipal economy, in particular: <ul style="list-style-type: none"> <li>• It calculates tariff rates for communal services, the use</li> </ul>

	Comes into effect on 1.25.98.		<p>and loss of resources used in housing and communal economy;</p> <ul style="list-style-type: none"> <li>• It introduces proposals to cover losses of the State budget from granting housing and communal services to separate categories of the population at reduced tariffs;</li> <li>• It participates in improving procedures of assigning and granting subsidies to the population to repay expenses for housing and communal services.</li> </ul>
3.	<p>Decree of the President dated 8.19.97, No 853/97 "On Measures of Realizing State Policy in Sphere of Natural Monopolies (with amendments introduced in compliance with Decree of the President No 1350/97 dated 12.11.97).</p> <p>Comes into effect 8.28.97.</p>		<p>It determines guidelines of reforming natural monopoly economies, in particular, in the sphere of housing and communal economy:</p> <ul style="list-style-type: none"> <li>• Implementation of competitive principles of granting housing and communal services and accepting payments for these services, elaboration of corresponding normative and legal acts;</li> <li>• Implementation of efficient mechanisms of establishing tariffs, calculating costs for heating, water supply and water sewage and waste water treatment services, and also norms of heating, water and gas losses;</li> <li>• Separation, in cities, of the generation of heating from its transportation, the formation of competitive relations in heat generation, the creation of a system of management and auditing of corresponding enterprises that includes local government agencies, public organizations, and the public;</li> <li>• Creation of an agency for normative and methodical support of state regulation in the sphere of housing and communal services, and also separate enterprises in this sphere.</li> </ul>
4.	<p>Decree of the CM dated 11.17.97, No 1269 "On Program of Development of Water Supply and Waste Water Disposal Systems."</p> <p>Comes into effect on 11.17.97.</p>		<p>The Program sets goals for improving financial situation of water supply and waste water disposal enterprises, their rehabilitation and reconstruction, and the improvement of normatives and regulation. This will help stabilize water supply and waste disposal systems, and improve the level and quality of services for the population.</p>
5.	<p>Decree of the CM dated 12.30.97, No 1497 "On Approving Regulations for Supplying Water, Heating and Drainage Services to Population."</p> <p>Comes into effect on 2.1.98.</p>	The population	<p>This Regulations adjust relations between consumers and producers. Relations between enterprises and organizations that provide services and the population that consume them are regulated by corresponding agreements.</p> <p>Consumer's claims will be reviewed within five calendar days. If the quality of supplied services deteriorates, a producer recalculates payments for these services, pays a fine to a consumer in compliance with a concluded agreement and repays damages caused to a consumer in compliance with the legislation. A producer is not liable (if not proved otherwise) for shortcomings through a consumer's fault or <i>force majeure</i>.</p>
6.	<p>Law "On Electric Power Engineering" dated 10.16.97, No 575/97-BP.</p> <p>Comes into effect on 11.25.97.</p>	The population	<p>The Law regulates relations in the sphere of production, transmission, supply and use of heating and electricity and their supervision by the state.</p> <p>The National Committee for Electricity regulates tariffs for transmission and supply of electricity by local providers. Tariffs for heating are regulated by oblast administrations. Outlays of providers of electricity for electricity consumed by some categories of consumers at discounted rates are compensated at the expense of sources specified by legislative acts that anticipate corresponding privileges.</p>

7.	Decree of the CM dated 10.28.97, No 1168 "On Improving System of State Rate-Setting for Housing and Communal Services." Comes into effect on 10.28.97.	The population	The Council of Minister of the AR of Crimea, oblast, Kyiv and Sevastopd municipal administrations will set actual costs of communal services to be paid by the population and also terms of their introduction.
8.	Decree of the CM dated 10.20.97, No 1154 "On State of Accounts and Mechanism of Repaying Debts for Consumed Heating and Electricity, Gas, Water Supply and Drainage by Establishments and Organizations Financed by State and Local Budgets, and Also by Population for Housing and Communal Services." Comes into effect on 10.20.97.		Ministries, departments and agencies of executive power are charged with the task of: <ul style="list-style-type: none"> <li>• Restructuring a balance of budget indebtedness for the difference in prices for gas consumed by the population and communal services for 1997 and previous years and its service through issuing bills;</li> <li>• Auditing a targeted use of budget resources and also amounts of compensation payments to energy suppliers and housing and communal organizations for granting privileges and subsidies – beginning from 1998 budgetary estimates of enterprises must include a separate line for expenses to repay restructured debts and current payments for consumed heating, electricity, gas, water supply and drainage.</li> </ul>
9.	Decree of the CM dated 12.15.97, No 1380 "On Mutual Settlements for Repaying Debts of Budget Establishments and Organizations for Consumed Heating, Electricity, Gas, Water Supply and Drainage." Comes into effect on 12.15.97.		The Ministry of Finance is allowed to complete mutual payments for covering budgetary indebtedness for price differences resulting from price adjustments on natural gas and housing and communal services.
10.	Decree of the CM dated 2.18.88, No 198 "On Specifying Terms of Implementing Electronic Metering Devices." Comes into effect on 2.18.98.		Attachment No 3 sets terms for the Savings Bank agencies to introduce electronic cash registers and computer systems in 1998-1999 for accepting communal service and other payments of the population.
<b>Prices and Tariffs for Housing and Communal Services</b>			
11.	Order of the Ministry of Economy dated 10.6.97, No 112 "On Maximum Retail Prices for Conventional Gas," registered in the Ministry of Justice on 10.8.97, No 459/2263. Comes into effect on 10.18.97.	The population	Retail prices for natural gas supplied for communal and everyday needs of the population are cut to 11.5 kopecks per m <sup>3</sup> (13 kopecks if a gas meter is used). Previously prices were 14 and 19 kopecks correspondingly. Prices set by this order had been already introduced prior to the latest price rise introduced on 6.1.97.
12.	Order of the National Committee for Electricity dated 12.9.97, No 1133 "On Tariffs on Electricity Supplied to Population," registered in the Ministry of Justice on 12.16.97, No 597/2401. Comes into effect on 1.1.98.	The population	Tariffs for electricity supplied to the population for everyday needs are increased. For example, in urban settlements the new tariff is 9 kopecks per 1 kWh (previously 8.3 kopecks). In compliance with the Decree of the CM dated 11.28.97. No 323, an introduction of a targeted loading to a general tariff will ensure financing of construction of power generating plants No 2 of Khmel'nitsk and No 4 of Rivne atomic power stations.
<b>Reduced Payments for Housing and Communal Services</b>			
13.	Law "On Amendments Introduced to Article 12 of Law of Ukraine "On Social and Legal Protection of Servicemen and Members of Their Families" dated 9.18.97, No 533/97-BP. Comes into effect on 10.8.97.	Servicemen and members of their families	A 50% discount rate for housing and communal services is rendered to servicemen, members of their families supported be servicemen (formerly – to all family members), parents and family members of servicemen who were killed, died, were missing or became disabled in the course of a military service.

## SECTION II

### Review of Reactions and Comments of Representatives of the Cabinet of Ministers, Supreme Rada, Other Institutions, and the Press Concerning Social Protection Issues

<i>A list of newspapers which articles are reviewed:</i>	
<b>Biznes</b>	(unofficial newspaper);
<b>Holos Ukraini</b>	(official newspaper, further - HU);
<b>Halitski Contracty</b>	(unofficial newspaper, further - HC);
<b>Den`</b>	(unofficial newspaper);
<b>Zakon i Biznes</b>	(unofficial newspaper, further - ZB);
<b>Kievskie Vedo mosti</b>	(unofficial newspaper, further - KV);
<b>Uryadovy Curier</b>	(official newspaper, further - UC)

#### Reforming Social Protection

“The Social Policy Guideline for 1997-2000” approved by the President’s Decree dated 10.18.97, No. 1166/97 determine new approaches in social policy, in particular:

- Tighter targeting of all types of social assistance and privileges;
- Support for the middle class as a backbone of stability;
- Reform of a wages payments systems;
- Implementation of an active policy to encourage employment;
- Prompt social payments;
- Monitoring of social protection needs, poverty, and the state of low-income families to allow swift decisions directed at improving social protection of corresponding strata of the population and estimating program efficiency.

The Decree stresses the urgency for targeting social programs. The principal idea for reforming the system of social assistance is to improve targeted social assistance provided to low-income groups of the population, with an initial priority on disabled persons. This will be accomplished by considering a family’s financial situation, replacing a system of privileges granted to separate groups of the population with targeted assistance, developing a unified set of principles and criteria for providing various types of assistance. The family’s financial situation and cost value of a subsistence level will be taken into consideration to determine an amount of social benefits.

Initiated in 1995, the housing subsidy program is considered, today, the most targeted of all social assistance programs because a subsidy amount directly depends on household incomes. The Decree points out that a mechanism of granting housing subsidies to the population should be further improved. For simplifying a procedure of their assignment calculated norms of housing and communal services, depending on a number of persons residing in a given housing, will be implemented. At the same time for and validity of assistance assigned auditing will be introduced to verify information submitted by applicants. Measures will be taken to use information in the State register of personal tax payers on personal incomes of applicants.

Prime Minister Valery Pustovoitenko defined a mechanism of realizing social policy in the following way (UC, 8.28.97, “*To Live and Work for Ukraine*”):

- On a national level – social standards are defined and minimum guarantees of social security are established. The Government cooperates closely with trade unions in the sphere of setting a minimum wage as a state social guarantee of labor remuneration;
- On regional levels – local governments develop and implement social programs.

Reform needs corresponding normative and legal regulations. “Legislation on social protection consists of numerous laws,” points out People’s Deputy Victor Medvedchuk (ZB, 2.25.98, “*Ukrainian Leg-*

islation: *Spheres of Present and Future Regulation*"). Numerous amendments and supplements to currently acting laws have not always been based on scientific or feasible concepts; more often, they have been based on temporary interests of different political forces in the parliament. That is why it is necessary to elaborate and approve:

- 1) An overall social policy concept that defines trends and priorities of social policy, functioning forms and methods for its institutions;
- 2) A concept of social protection that together with principal laws may form a basis for the Social Code of Ukraine.

The news media was mostly pessimistic about opportunities to improve the situation in the social sphere when the President signed the Decree "On Principal Guidelines...." This reflects the poor results achieved in this sphere in previous years. The Vice Prime Minister responsible for social policy M. Biloblot-sky admitted that, in 1997, the socio-economic situation in the country was not improved (UC, 9.25.97, "*Protect the Needy*"). It is unlikely that there can be significant improvements within the next two years, given the time needed to implement large reforms and the lack of money in the state budget, stressed ZB (12.24.97, "*Social Portrait of Ukraine*"). According to estimations of the Christian-Democratic party, 1997 saw minimum progress in the social sphere. A "short blanket" policy was continued – from time to time different categories of the population were supported, although only those groups that could exert a direct influence on the country's economic survival: transport workers, miners, power engineering specialists, medical staff, personnel of law enforcement agencies and some other groups, including administrative bureaucracy (KV, 12.30.97, "*Acting and Overseeing Power*").

According to Vitaly Melnychuk, advisor to the Supreme Rada speaker, the standard of living in 1998 will continue to deteriorate, as measured in "Principal Guidelines..." But these claims were not specified nor economically substantiated (HU, 10.11.97, "*On 'Assumptions' and Their Consequences*").

People's Deputy Volodymyr Pylypchuk published his own plan how to overcome the crisis. In his opinion social policy problems will be solved in itself, automatically, i.e., in the result of economic growth based on his plan (HU, 12.2.97, "*Economic Crisis May Be 'Canceled', Provided...*"). People's Deputy Yevhen Marchuk also developed his own plan of reforms. He promises to overcome negative tendencies and altogether change the social sphere in three and a half years (Den, 9.6.97, "*Young in Power – Chance for Ukraine*").

## 1.2. Assistance of International Organizations in Reforming Social Sphere

At the meeting with a delegation of US officials, Prime Minister V. Pustovoitenko noted that we need the understanding and support of the USA in solving three most important social problems: repayment of wage arrears, implementation of pension reform, and reform of the overall system of social protection (ZB, 8.27.97, "*Americans 'Discover' New Ukrainian Prime Minister*").

In June 1997, USAID and the Ministry of Social Protection of the Population of Ukraine signed an Agreement on Cooperation in the sphere of social protection reforms during the period until January 1, 2000. This is the second such agreement. Gregory Huger, Regional Mission Director for Ukraine, Belarus and Moldova, emphasized that USAID will help improve the current rational program of housing subsidies provided to low-income families, computerize this service and social protection institutions, create a system of social monitoring, etc. Petro Ovcharenko, Minister of Social Protection until July 1997, praised results of past USAID cooperation, in particular, its assistance in developing and implementing the housing subsidy program. Owing to this program and the price reform in the sphere of housing and communal services, the state budget was saving \$1 billion annually (HU, 7.9.97, "*Equipped with Computer Against Red Tape*").

In compliance with the "Project of Supporting Social Protection" ratified by the Supreme Rada on November 4, 1997, the World Bank will grant Ukraine a \$2.6 million credit. At the same time, the World Bank postponed financing pension reform. Paul Siegelbaum, director of the World Bank for Ukraine and

Belorus, said that political situation in the country prevents financing this project. The government of Ukraine deviated from specified principles for carrying out fundamental pension reforms when it stated that it would not consider raising the pension age or beginning reforms to begin funding the state pension system - either through a funded state pension system or through funding a private pension system. According to a proposal for funding a portion of the state system recommended by the World Bank, part of pension payments must be directed to the non-state pension system. Both systems receive mandatory contributions from employers and employees, although for private pension funds this amount could be supplemented by voluntary contributions from individuals wanting to enjoy in the future a higher pension (Den`, 11.22.97, "Pensioners Asked Not to Hurry"; 12.13.97, *Pension-Police Reform*"; KV, 9.4.97, "Where to Find Money for Pension").

"Socis-Gallup" conducted a public-opinion poll to measure attitudes of Ukrainians to financial aid provided by Western countries (Den`, 5.11.97, "Den` Sociologic Service"). Over half of respondents are sure that our country needs Western assistance, while 38% holding an opposite opinion. Most often, industry (28%), economy (26%), low-income categories of the population (22%) and health protection (21%) were mentioned among those areas needing urgent support from international donors. Asked about purposes of Western countries that grant Ukraine financial assistance, respondents gave the following answers (two possible answers were suggested):

- To make Ukraine economically dependent on other countries – 40%;
- To gain some benefits – 40%;
- To impose on Ukraine some political interests – 23%;
- To provide an elementary assistance characteristic for the civilized world – 16%;
- To provide unselfish assistance to a weaker partner – 8%.

### 1.3. Reforming System of Social Insurance

Reform will be carried out in accordance with the "Legislative Principles of Ukraine on Mandatory State Social Insurance" passed by the SR on January 14, 1998, pointed out Deputy Minister of Labor and Social Policy Anatoly Sorokin (ZB, 4.15.98, "Long Term Programs"). In compliance with these principles, it is important to pass laws on each separate type of social insurance (several draft laws on the major component parts have been already submitted to the SR for deliberation). Reform is necessary because there is no coordination between social insurance programs and social protection programs and because of the low level of pension benefits, the lack of a relationship between pension benefits and employment service, the economic insecurity of employees forced to work short hours or not working at all due to cuts in production. Reform will take 10-15 years. About five off-budget insurance funds will be created, based on contributions from employers, the state, and employees. The targeted use of funds will be supervised by a tri-partite organization including by trade unions, the government and employers.

Some provisions of the Principles were considered inappropriate, in particular (Biznes, 3.16.98, "Mandatory Fear"):

- Possible introduction of new mandatory social insurance payments;
- Possible increases in current payments, because interest rates may be determined annually by the Supreme Rada;
- Creation of two separate funds: "insurance against temporary disability, birth, and funeral expenses" and "insurance against industrial accidents and professional diseases." At present, the Social Insurance Fund deals with both of these types of insurance.

The draft law "On Medical Insurance" has been recently debated. An introduction of medical insurance would bring the situation in the medical sector closer to the standards of civilized countries. But, in practice, there are many unresolved problems. Foreign experience, shortcomings of the draft law submitted by the Ministry of Health, and alternative ways to solve the problems of the sector are discussed in the article in the "Biznes" (8.11.97, "Insurance Intervention Recommended for Market").

The Law “On Amendments Introduced to the Law of Ukraine “On Levy on Mandatory Social Insurance,” dated 12.30.97, became effective on February 1, 1998. This delays dissolution of the Fund of Social Insurance planned for January 1, 1998, when deductions to the fund would have been transferred to the State budget.

#### 1.4. Pension Reform

In October, 1997, the President signed the Decree “On Principal Social Policy Guidelines...,” and several draft pension laws prepared by the CoM were submitted to the Supreme Rada, including “On Approving Program of Pension Reform in Ukraine,” “On Mandatory State Pension Insurance,” “On Non-State Pension Funds”.

Pension reform under these proposals is intended to be carried out in three stages (ZB, 8.20.97, “*Pension Reform*,” 11.19.97, “*For Whom the Pension Bell Tolls*,” UC, 9.23.97, “*Pension Reform Is Everybody’s Concern*”):

##### Stage 1

- Defining sources of financing of pensions, with the aim of transferring all payments made by the Pension Fund but not related to labor contributions to state and local budgets and other funds;
- Introduction of mandatory state pension insurance. A work-record book is planned to be substituted by a personified reporting system with a specific identification code for each covered individual;
- Reform of current privileged pensions and compensations paid for certain categories of labor by gradual transition to employer-financing of these privileges by employers and the creation of professional pension plans.

##### Stage 2

- Increase of pension benefits (the maximum pension benefit cap will be canceled);
- Implementation of supplementary non-state pensions;
- Transfer of social pensions to the system of social assistance;

##### Stage 3

- Provision of minimum living standards;
- Transfer to full realization of norms of pension insurance.

The draft program anticipates the process of pension reform through a transition from the state pension security to the insurance-based pension security. It is expected that three pension levels will be introduced:

- 1) Labor pension – formed at the account of insurance contributions, and for some categories of employees – at the account of the state budget;
- 2) Social pension – financed by the state and local budgets;
- 3) Supplementary pension – provided by non-state pension insurance institutions.

Anticipated results:

- Differentiation of pension benefits according to an employment period;
- Increasing pension benefits to 35% -40% of the average wage, with a final, target “replacement rate” of 40%.

The following provisions were criticized and questioned:

1. Increased pension benefits could be financed by relieving the Pension Fund of the responsibility of paying for certain social payments, but other solutions are not discussed. Creating the necessary information network will be expensive, but no practical sources of financing are described – the Pension Fund lacks money even to pay pension benefits and the World Bank decided to postpone support for pension reform.

2. The government is carrying out only limited reforms – personified record keeping is being implemented within the framework of the old system, while creating a partially funded system was not introduced.<sup>1</sup>
3. Beginning from 2000, a gradual increase of a retirement age for women to 60 years and men – to 65 years is expected -- although not mentioned in any draft reforms. According to official statistics, 9 million working people are working short hours today, so an increase in the number of older workers that an increase in the pension age would create could may worsen the situation. To prevent the government from raising the pension age, the parliament tried to guarantee the current retirement age existing in Ukraine – 55 years for women and 60 years for men -- in the constitution. Factions of communists, socialists, and farmers, agrarians, as well as “Social-market choice,” “Unity,” “Independents” supported by the Supreme Rada Chair and his Deputies, proposed it. Mostly “right-wing” deputies opposed it as a populist measure (Den`, 1.12.98, “*Old Age Won’t Be Met At Home*”; 1.17.98).

## 1.5. Pension Benefit Increase

### 1.5.1. March ‘98 Pension Increase

The increase in pensions on March 1, 1998, was heralded as the first stage of pension system. The maximum labor pension was increased by Hrn 10 and for those employed in specified adverse conditions – by Hrn 20 (Decree of the CM dated 12.8.97, No 1375). Maximum pension benefits at present amount to Hrn 59.86 and Hrn 86.48, respectively, and lower limits will not fall below minimum wages used at present for calculating pension benefits, i.e., Hrn 35-40. The procedure for increasing pensions was altered; in the past, pension benefits were raised automatically by between 10% and 20% to all pensioners; now, employment period and wages are taken into consideration for recalculating pension benefits because the cap was increased. The cap on pension benefits effectively held almost all recipients to similar pension levels. The last raise, increased benefits for 6 only million pensioners (45% of their total number) (UC, 1.13.98, “*From Leveling to Fair Pension Benefits*”; 3.28.98, “*Pension Benefits Raised, Assistance Targeted*”).

### 1.5.2. Legislative Increase of Minimum Pension to Subsistence Level

In October 1997, President Kuchma was forced to sign the Law “On Amendments Introduced to Law of Ukraine “On Pension Security,” originally passed by the Rada on June 4, 1997 but vetoed by the President as an excessively expensive measure. The Supreme Rada had overcame his veto. The law raised the minimum old age pension to the poverty level -- Hrn 70.9 when the law was originally passed, Hrn 73.7, from 1.1.98. It also lifted the limit on earnings considered when calculating pensions. Previously, the minimum pension benefit had equaled Hrn 16.62.

The President and the Cabinet of Ministers raised the following concerns with this Law:

1. The Law does not specify sources of financing additional outlays of the Pension Fund that Min-Fin estimated would cost an additional Hrn 1.8 billion per month;
2. A pension increase implemented in compliance with this Law will contradict the principle of differentiating pensions according to work experience – a principle deputies had defended ardently.

The Cabinet of Ministers and news media regarded this law as pre-election populism by deputies. The government favors a step-by-step increase in the minimum pension toward the poverty level, as funds became available. The attitude of deputies towards other social laws is clearly inconsistent with their voting on this law. Thus, the draft law “Legislative Principles of Ukraine on Mandatory State Social Insurance” was under deliberation in the parliament for two years: it was passed in the first reading only on the fourth attempt, the second reading was blocked eight times and was finally it was passed shortly before the March

<sup>1</sup> Partial funding of the state pension system is one of the elements of the draft law on mandatory pension insurance submitted by the CoM to the Supreme Rada in June 1998.

elections. At present the Supreme Rada deliberates other draft laws that need an urgent passage, including state pension reform and the legislative framework for non-state pension funds.

While discussing this issue, the Supreme Rada was picketed by several hundred pensioners and war and labor veterans demanding that they overcome the President's veto, not to pass a new law on pension security, to index urgently pension benefits in accordance to the inflation rate, to pass the law on subsidies (UC, 10.11.97, "*Statement of Cabinet of Ministers of Ukraine*"; 10.14.97, "*Pension Benefits to Be Increased Gradually*"; KV, 10.17.97, "*Jump in Pension Benefits Impossible*"; HU, 10.9.97, "*Presidential Veto Overcome*"; HC, No 42/97, "*Parliament Overcame Veto of President on Minimum Pension Benefit*").

### 1.5.3. Pension Increase in Dnipropetrovsk Oblast

In January 1998, pensioners in Dnipropetrovsk receiving benefits below Hrn 51/month were paid an additional Hrn 10. Pavlo Lazarenko, Chairperson of Dnipropetrovsk oblast council and former Prime Minister, explained that this supplement was financed with the proceeds from selling oblast communal property and from donations by commercial enterprises. These payments began in Lazarenko's home raion and in other raions that formed part of his election district (Den', 1.31.98, "*Pensioner Refuses Sop*").

## 1.6. Non-State Pension Funds and National Pension Fund

Draft laws "On State Pension Fund" and "On Non-State Pension Funds" were submitted to the Supreme Rada for deliberation. The draft Law "On State Pension Fund" sets legal principles for the state Pension Fund and its functions -- adding a supplementary program to the present state pay-as-you-go system. Financial resources and the fund's budget will be separated from the state budget but with the state ensuring the fund's reliability. Authorized capital of the fund will be formed through the transfer of 10% of shares of privatized enterprises and could total as much as \$1-2 billion each year. Within 2 to 3 years of the start of this supplementary system, pensioners who are already retired -- and therefore unable to benefit from reforms in the state system or from new private pension plans -- would receive supplementary pension benefits. According to the author of the draft law, People's Deputy I. Kvyatkovsky, this Fund should have already been created because, as more state property is privatized, the incentive to create this supplementary system diminishes and, after that, ensuring pension benefits at a certain level will need between 15 and 20 years for accumulating the necessary financial resources.

Citizens of Ukraine would be eligible to open personal pension accounts in this supplementary fund with voluntary contributions based on agreements concluded between the fund and participants (UC, 11.13.97, "*Social Needs Above All*"; ZB, 1.19.97, "*Sweet, Sweet Pension Dreams...*"; 2.11.98, "*On National Pension Fund*").

Finally, it is interesting to compare progress in Ukraine with actions taken in Russia on pension reform. At the end of April 1998, the State Duma passed the first reading of the draft law on pension security, omitting several articles from the original draft for further review. The Duma objected to the following provisions of the draft law submitted by the government:

1. The minimum wage defined specifically for this law as the basis for the pension benefit, Rb 760, is lower than the generally-accepted minimum wage of Rb 1,200.
2. The new law proposes to exclude from the employment period establishing pension eligibility time spent in higher educational institutions and in post-graduate courses.
3. Cancellation of the privilege of an early pension for employees who worked in the Extreme North regions.

## 1.7. Subsistence Level

On December 24, 1997, the Supreme Rada passed the Law "On Establishing Value of Subsistence Level and Minimum Wage for 1998", increasing from January 1, 1998, the subsistence level from Hrn 70.9

to Hrn 73.7 and setting the minimum wage at Hrn 45. The final draft of the law reflected proposals of the Cabinet of Ministers. The first version, passed by the Supreme Rada on 10.15.97, had specified a timetable for stage-by-stage increasing of a minimum wage -- raising it to 73.7 Hrn on October 1, 1997. President Kuchma vetoed the law because estimates of the Cabinet of Ministers, its implementation would have required more than Hrn 8.1 billion, which the budget could not afford.

The issue of poverty has been widely discussed (Den, 11.1.97, *"Poverty: Not Vice but Political Issue"*; KV, 10.1.97, *"Every Second Citizen Below Poverty Line"*). According to different estimates, a number of poor in Ukraine may comprise:

- 25% of families with per capita family incomes below the official subsistence level of Hrn 73.7 per month per person;
- 95% of families with an income below a poverty line adopted by the World Bank for countries with a transition economy (\$4 per day per person);
- 75% of families -- according to some sociological surveys;
- 50% of families with incomes below the cost of the Minimum Consumption Basket (a survey was carried out in 1995-1996 by Kyiv International Institute of Sociology (at recommendations of the Ministry of Labor).

Such discrepancies can be explained by the fact that different "poverty indices" are used -- subsistence level, world standards poverty line, consumer basket, and different procedures are used to determine incomes: some used official information from the State Committee for Statistics, others used measures that included income from "informal employment."

The following aspects of poverty in Ukraine have been often repeated:

- 1) Official employment does not guarantee a minimum standard of living for many families;
- 2) By many different indices -- GDP per capita, purchasing capacity of the average wage, patterns of family expenditures, consumption of goods and services -- Ukrainians are poorer than people in many developing countries;
- 3) The highly visible wealth of a few people during the economic transition, heightens the perception of the majority that the standard of living is deteriorating.

Results of the survey conducted by Kyiv International Institute of Sociology show that consumption is typically twice as high as income (Den, 7.10.97, *"Fight with 'Shadow' Which Size Nobody Knows"*). The gap between officially registered incomes and the value of goods and services consumed by households is bridged by income from "informal employment." Low and average income individuals spend money earned in the gray economy to purchase goods also produced in the gray economy and not measured in state statistics.

The following forms are predominant in the structure of "informal employment" (Den, 8.7.97, *"High Price of Sluggish Reforms"*):

- Agricultural production from individual home land plots used for personal consumption;
- Commerce -- reselling consumer goods imported through shuttle trips to other cities and foreign countries.

The "poverty issue" has been widely "exploited" by politicians. Some left and extreme left parties drew attention to high poverty levels, high unemployment and limited opportunities for an "informal employment" in the Eastern and South Eastern regions.

According to the "human development index" (HDI) developed by the United Nations, in 1997 Ukraine occupied 95th place among 175 countries of the world. Compared to the previous year, this was a drop of 15 positions: of four indicators in the index Ukraine's position remained unchanged only with respect to literacy, while falling in position with respect to life expectancy, real GDP, and purchasing power. This data is quoted in the third annual report "Ukraine. Human Development," prepared under the aegis of the UN Development Program (Den, 12.17.97, *"Back, to Wooden Plow"*; UC, 12.20.97, *"Human Development of Ukraine"*).

Most Ukrainians adopted a similar view to 1997: according to sociological surveys, the financial situation of 27% of respondents deteriorated, and for 43% it became significantly worse. Asked to look forward to 1998, respondents gave the following answers: will be worse (39%), will remain the same (27%), will improve (20%) (Den', 1.9.98, "Den' Sociological Service").

## 1.8. Housing Subsidies

### 1.8.1. Amendments Introduced to Housing Subsidy Program

The Decree of the CM dated 9.22.97, No 1050 approved new regulations on assigning and granting subsidies to the population. Numerous publications discussed the changes (UC, 10.16.97, "Granting Housing Subsidies"; 12.4.97, "Housing Subsidies – Targeted Assistance"; KV, 10.3.97, "Housing Subsidies"; ZB, 10.29.97, "New Subsidies – Pensioners Glad, Slackers in Trouble"; Tyzhden (Week), 11.14.97, "Subsidies Granted: Difficult to Take, Easy to Carry"):

#### 1. Clarifications

- For the first time, the Regulations affirm that a subsidy is irretrievable and its receipt is not associated and does not involve any change in the form of ownership of a dwelling. This definition is intended to stop the spread of rumors that subsidies must be returned, if not by current subsidy recipients then by their descendants, or that one may lose one's dwelling if one accepts a subsidy.
- The number of persons eligible for a subsidy is specified more precisely – it includes all individuals registered in a particular apartment (house) who are charged payments for housing and communal services. A preceding wording mentioned only a "family," but the meaning of this term in the housing subsidy program differs in important ways from its meaning in the family law.
- A procedure of assigning subsidies to applicants that claim either very low or "zero" income is specified. In such cases a monthly tax-free minimum income is imputed to the individual when calculating the subsidy benefit.

#### 2. Simplifying the Subsidy Mechanism

- To non-working pensioners and other disabled individuals for whom pensions and social payments are the only income source, subsidies are assigned for 12 months instead of six months.
- A subsidy is not canceled if recipients incur debts for housing and communal services, provided they can document wage and pension arrears.

#### 3. Introduction of auditing of the targeted use of budget funds and information submitted by applicants.

Deputy Minister of Labor and Social Policy Mykola Noshchenko pointed out that the housing subsidy program and the accompanying increase in prices and tariffs for housing and communal services allowed a reduction in the state budget deficit estimated at 1.23 billion Hrn in 1996 and 1 billion Hrn in 1997 (HU, 4.7.98, "Subsidy As Life Belt").

"HU" published several articles by economists T. Kirin and M. Shapoval. They argue that the government deliberately reduced the living standards of the population in order to cut government expenditures on housing and communal services. They claim that the increase of prices for housing and communal services caused a considerable price reduction in employment -- forcing between 30 and 40% of families in Ukraine to apply for subsidies.<sup>2</sup> Moving to 100-percent cost recovery would, they believe, double the number of subsidy recipients<sup>3</sup> (HU, 9.30.97, "Chance to Become Rich"; 3.3.98, "Let Horses Work or Why Motivation for Labor Is Lost").

The housing subsidy organizational structure was criticized – one of the readers of HU proposed to cancel a subsidy system and corresponding social services. Petro Ovcharenko, then Minister of Social Pro-

<sup>2</sup> The actual percentage of households receiving subsidies is between 12% and 18% – depending on the season, editors.

<sup>3</sup> Based on regression analyses of the relationship between tariffs and the number of subsidy recipients using data from the past three years, PADCO estimates that the increase would be only about 25% - editors.

tection of the Population, replied that by taking decision on subsidies, the government considered various approaches to solving the problem, including a possibility to grant subsidies through ZHEKs. At present there are about 1,500 communal ZHEKs, not to mention a considerable number of cooperative and departmental ZHEKs. This is why a new, independent system of 756 subsidy offices was established instead. Besides, over two thousand enterprises render communal services both to the urban and rural population. Many individuals receive complex services provided by enterprises and organizations that belong to different departments. If these local offices had been given the additional responsibility of allocating subsidies, then the subsidy procedure itself and the necessary auditing would have been much more complicated, not simpler (HU, 8.30.97, “*Not Omnipotent ZHEK*”).

### 1.8.3. *Setting Up System of Housing Subsidy Program Auditing*

At the end of 1997, two normative acts regulating an audit program were issued – “Procedures for Repayment of Overpaid Subsidies,” approved by the order of the Ministry of Labor, Ministry of Finance and Ministry of Justice dated 12.29.97, No 39/283/90/5 and “Regulations on Auditing Targeted Use of Budget Means Allocated for Subsidies to Population,” approved by the order of the Ministry of Labor and Social Policy, Ministry of Finance, Ministry of Economy and the State Committee for Architecture, Construction, and Housing dated 12.25.97, No 38/284/145/65. Procedures for repayment anticipated collecting overpaid subsidies:

- 1) Individuals that submit incorrect income information must repay subsidies at a double rate;
- 2) Legal entities that issue statements containing incorrect information may be subject to administrative or criminal fines.

Procedures also specify disciplinary, financial, and criminal liability in compliance with the civil, criminal codes, and the code of laws on labor if a misuse is revealed (ZB, 4.3.98, “*Make No Fun of the State*”).

The need to create the audit program results from by abuses by applicants, calculation mistakes by employees of housing subsidy offices, late transfer of subsidy funds by local budgets, and misuse of budget funds. Below are several examples:

- In 1997, only 63% of calculated subsidies were transferred to ZHEKs (KV, 2.10.98, “*Only Half of Housing Accounts Paid*”);
- Local officials in Odessa oblast decided to cancel subsidies assigned earlier, justifying their action by claiming that, at the end of the year they had received inadequate subsidy budget allocations;
- As of April 1998, between 7% and 10% of families applying for subsidies submitted incorrect information (including income information), between 1.5% and 2% intentionally;
- The head of Hola Prystan` state notary`s office, Vira Nozdrachova, who earned approximately Hrn 400 a month unlawfully received a Hrn 341 subsidy. She herself compiled and notarized her income statement which understated her income by two-thirds. Auditing revealed this forgery and the court required the notary to repay the “stolen” subsidy in double the amount. She was dismissed (KV, 3.6.98, “*State Notary Received Subsidies*”).
- S. Prykhod`ko, a Kyivite, managed to have his debts for housing and communal services written off while receiving a subsidy. When he was issued a subsidy statement, the ZHEK failed to conclude an agreement with him on repaying his debt within 6 to 24 months. He returned to his native village, leaving in the ZHEK an application to excuse payment for communal services due to his absence. At the same time, a subsidy was transferred to enterprises that allegedly rendered him communal services (Den`, 9.3.97, “*State Allows No More Misuse of Housing Subsidies*”).

## 1.9. Assistance to Families with Children

Several draft normative acts are being developed at present. The Ministry of Family and Youth elaborated and submitted to the Cabinet of Ministers the draft Declaration of general principles of the gov-

ernment policy on family and women in Ukraine. The draft Concept of the state family assistance policy also is being finalized.

Prime Minister Valery Pustovoitenko pointed out that a system of state assistance and privileges granted to low-income families should be reviewed. The Cabinet of Ministers is preparing new wording of the Law on state assistance to families with children. New procedures for assigning and paying benefits will be based on targeting. The core of the draft law is a mechanism of supplementary payments that will allow to move away from the old practice of assigning social assistance on the basis of a minimum wage. Categories of recipients of benefits will also be reviewed with an account of their financial situation.

Until this problem finds its legal solution, the Cabinet of Ministers prepares the draft decree, that will allow, at least temporarily, increased assistance to low-income families with children (UC, 12.9.97, *“Hope Next Year Will Improve Situation”*).

### 1.10. Social Privileges

Meeting the press, the President answered the question about privileges in the following way: “Ukraine is the only country with such an unwarrantable system of privileges.” Veterans of the Great Patriotic War deserve respect, but lately their number is ever increasing. A similar situation is with participants of liquidation of aftermath of the Chernobyl catastrophe: almost half of the country belongs to this category. President Kuchma noted that privileges must be granted only to those who are unable to look after themselves. He plans to address the Supreme Rada with a legislative initiative to cancel privileges of deputies and functionaries (UC, 1.6.98, *“Lest Economic Stability”*).

### 1.11. Back Wages and Social Payments

Wage and social payment arrears had the following dynamics last year (UC, 4.2.98, *“Statistic of Wages and Pension Benefits”*): between June 1, 1996 and mid-1997, indebtedness of all budgets grew steadily, reaching Hm 2.8 billion. During the second half of 1997, debts of the consolidated budget were reduced by Hm 562 million (or by 19.3%). As of 1.1.98, they comprised:

- 1) Wage arrears in the budget sphere – Hm 886 million;
- 2) Pension and social payment arrears of the Pension Fund – Hm 1.28 billion.

To repay back wages the Cabinet of Ministers took several measures. The government submitted to the Supreme Rada a number of draft laws intended to increase budget revenues. The Decree of the CM, dated January 24, 1998, No 75, “On Special Measures to Repay Debts of Enterprises, Agencies and Organizations on Mandatory Payments to Pension Fund” introduces new forms of settlements such as issuance of bills on debt which would allow enterprises to pay off debts to the Pension Fund, while customers may buy output at discounted prices (Biznes, 3.30.98, *Bill Retires*). Basic provisions of this document include:

1. Bills on debts of enterprises are issued from 4.1.97;
2. Bills on debts may be issued only by legal entities;
3. “Aval” is the sole authorized bank of the Pension Fund;
4. Bills are issued only by debtors;
5. A bill of exchange is issued at the initiative of the Pension Fund and “Aval” bank;
6. A 30% discount on debt is anticipated for a bill of exchange.
7. A bill and a bill of exchange may be used as payable documents.
8. An acceptance of a transfer note is a right, but not an obligation of a debtor.

The Decree of the CM dated December 20, 1997, No 1427, approved regulations on procedures of compensating employees for losses incurred when wages are not paid on time. This indemnification will be small, and enterprises and organizations under all forms of ownership will be obligated to pay the compensation.

In December 1997 People's Deputies passed in the first reading the draft law "On Partial Suspension of Wage Payments in Government and Local Government Bodies of Ukraine" submitted by the socialist/agrarian faction. According to the draft law, People's Deputies, the Presidential Administration, the Cabinet of Ministers, functionaries of all levels will receive 50% of wages until back wages, pensions and other social payments are fully paid off. This populist decision, rejected a year ago, was passed shortly before elections to the Supreme Rada (Den, 12.19.97, "*Deputies Share Their Wages with Population*").

Hromada's 'shadow cabinet' suggested introducing a temporary payment instrument – universal indemnification certificates (UIC). People would receive UICs on account of wage or pension arrears and will be able to use them to pay for gas, electricity, food -- although on a limited basis. It was planned to submit a draft law to the Supreme Rada for deliberation in January 1998 (KV, 12.25.98, "*Hromada Shadow Cabinet Devised New 'Money'*").

## 2. Providing Housing and Communal Services to Population

With the aim of reforming housing and communal services, the meeting of the board of the State Committee for Architecture, Construction, and Housing held at the beginning of 1998, suggested the following measures:

- A new management scheme for housing economy on the functional basis with implementation of state and public supervision of the use and maintenance of housing;
- Creation of appropriate conditions for an efficient functioning of ZHEKs with different forms of ownership;
- Implementation of progressive methods of settlements for utilities and housing.

### 2.1. Price Policy in Housing and Communal Economy

The Law "On Local Government in Ukraine" dated 5.21.97, No 280/97-BP, specifies that executive bodies of local radas must themselves determine tariffs for communal services. The Decree of the CM, dated 10.28.97, No 1168 "On Improving System of State Tariffs on Housing and Communal Services" authorizes oblast administrations to set tariffs for communal services based on a specified fraction of their actual costs of production. At present this fraction is 80%. At the same time, in the course of raising prices for electricity and gas in 1997, the issue of the specific percentage to be paid by the population after prices were raised was never defined. So, the relation between payments and the actual cost of production of services is now even less clear than it was before.

#### 2.1.1. Electricity Tariffs Increased

Beginning on 1.1.98, residential tariffs for electricity needs were increased by 8% in accordance with the order of the National Committee for Electricity dated 12.9.97, No 1133 "On Tariffs on Electricity Supplied to Population". The Decree of the CM dated 11.28.97, No 1323, recommended to increase tariffs for electricity supplied by atomic electric stations by establishing, from January 1, 1998, a surcharge to the general tariff sufficient to finance the completion of plants No 2 of Khmelnytsk and No 4 of Rivne atomic power stations. A 20% price increase on electricity was planned for August 1, 1997, but Prime Minister V. Pustovoitenko postponed the implementation of this decision of the National Committee for Electricity (HC, No 39/97, "*Oblenergo Market Voltage*").

#### 2.1.2. Price of Conventional Gas Falls

From October 1997, retail prices for natural gas supplied for residential customers fell by 13% in accordance with the order of the Ministry of Economy, dated 10.6.97, No 112 "On Maximum Retail Prices on Conventional Gas." The cost of gas supplied for the population fell from \$80 to \$66 per 1,000 cubic meters. First Vice Prime Minister Anatoly Holubchenko said that such the reduction was the result of gas recovery in Ukraine and also of lower cost gas supplied for a transit of Russian gas across the territory of Ukraine.

### 2.1.3. Pricing Violations in Sphere of Housing and Communal Services

Auditing carried out by agencies of the state price control and Anti-Monopoly Committee in 1997 revealed violations of pricing in the sphere of housing and communal services. Prices were inflated in more than 46% of all cases – the largest incidence of price inflation of any sector of the economy (Biznes, 2.23.98, “Housing and Communal ‘Adventures’ of Natural Monopoly”; ZB, 11.12.97, “Prices and Order – Incompatible?”; 3.4.98, “Tariff Outrage”; KV, 2.30.97, “Why Ukrainian Town-Dweller Requires Daily Full Four Baths, While to Parisian Two Is Enough?”; UC, 7.26.97, “Tiny Distance Between Grand and Low”). Auditing revealed practically all possible misuses, including:

1. Unlawful collection of payments through overstating levels of consumption of gas, water, i.e. payment for losses that significantly exceed technological norms;
2. A communal service is not provided, although payment for it is collected (for example, billings were not recalculated despite interruptions in water supplies);
3. Services are provided at extremely high prices. This is also achieved by overestimating corresponding norms. It is a well known fact, that after installation of gas, heating and water meters, measured consumption is less than half the previous normative consumption levels.
4. Introduction of discriminatory tariffs for services, that infringe upon the rights of separate consumers. For example, when supply of hot water was cut off, “Zacarpagaz” set increased rate for gas supply and explained its by the fact that people consume gas for boiling water.

Auditing revealed that although normative acts set the level of payment of the population for housing and communal services at 80%, actually it comprised:

Heating – between 8.3% in Kharkiv oblast to 100% of the cost value in Volyn` and Cherkasy oblasts;

Water supply – 100% of the cost value in 16 oblasts of Ukraine;

Water sewage – 100% of the cost value in 15 oblasts.

Basic reasons for pricing violations:

1. The monopoly situation of communal services enterprises: a lack of competition discourages service suppliers from develop cheaper ways of delivering services. In opinion of Oleksandr Zavada, Chairperson of the Antimonopoly Committee, by nature, ZHEKs are typical small enterprises that should compete for contracts to supply housing maintenance services. Meanwhile, ZHEKs are monopolist intermediaries, created by the state, that remain uncontrolled;
2. Lack of heating, water and gas meters;
3. Reduced tariffs for specific categories of the population are indemnified by municipal economy at the expense of increased tariffs for other categories of consumers not eligible for privileges.
4. Imperfection of a normative-legal regulation:
  - Tariffs are formed on the basis of an actual consumption for the past period, not on the basis of calculations substantiated by technical and economic information;
  - Considerable tolerant losses are specified by construction norms, for example, water suppliers are allowed losses for treatment and transportation of 30%;
  - Earnings of plumbing enterprises depend on the volume of waste treated that does not stimulate water saving, installation of water meters and control of impermeability of water mains. That is why it is necessary to devise a system in which it will be profitable to supply consumers less amount of water, although it must be sufficient for the so-called “water comfort;”
  - Statistics show that auditing of price policies at enterprises is carried out, on average, only once every ten years;
  - Pricing violations are subject to only minor penalties: maximum sanctions applied at present are fines imposed, by the way, not on an individual, but on an enterprise, and only rarely are guilty individuals dismissed or prosecuted.

## 2.2. Amendments in Legislation on Housing and Communal Services

### 2.2.1. Electric Power Supply

The Law "On Electric Power Engineering" No 575/97-BP passed 10.16.97, resolves issues relating to the supply of energy to enterprises, while issues related to supplies to residential customers are still unresolved. It is expected that the Cabinet of Ministers soon will approve Procedures of using electricity and heating by the population.

The Law specifies that a consumer is eligible for a supply of electricity which quality corresponds to national standards. However, the population, in contrast to enterprises, cannot choose among alternative energy suppliers. At the same time, many power lines do not meet the 50 cycles per second standard (often comprises 49.2-49.25 Hz). Thus, households may be supplied either a low -grade electricity or no electricity at all. Does the supplier bear any responsibilities in this case and does a consumer have the right to pay less for inferior service? In autumn and winter, suppliers practice "fan-like" cutting – terminating service to whole raions, including to those consumers who pay on time. This is also a violation of consumers' rights.

In compliance with the Law, civil, administrative, and criminal offenses in the sphere of electric power engineering include stealing electricity and heating (through unauthorized hookup to electric power plants and consumption of electricity without metering devices), damage caused to such devices and to electric power plants. Individuals that avoid fulfillment of instructions of the State Electricity Supervision Inspection may be fined up to five tax free minimum incomes (Den', 11.25.97, "*Law Signed... Long Live New Law?!'*").

Electric meters are not legally regulated. If an electric meter is mounted on a stairwell, then who is responsible for its safe keeping – a tenant or the ZHEK? And if an apartment is privatized -- who is responsible for the meter? According to the current "Procedures on Electricity Consumption," homeowners are responsible for safe keeping and integrity of apartment electric meters mounted on stairwells. So, if a condominium is not created, ZHEKs should be responsible for mounting new electric meters to replace stolen ones and also for taking appropriate preventive measures against theft (fixing padlocks, etc.). These measures are rarely taken, however. Many electric meters are stolen. In some cases people steal their own meters: this is profitable, because in this case, they are connected directly to the mains and the payment for a consumed electricity for such consumers is determined at "average" consumption levels (KV, 11.24.97, "*Thieves Stole 36.000 Electric Meters in Kyiv*").

Non-payment for electricity, including various methods of consuming electricity while by-passing metering devices, may be eliminated if the type of electric meters that permit prepayment for electricity are installed. There exist push button devices that supply electricity only after a numeric code is entered by an energy supplying company after payment is made; and there are electric meters operated by magnetic or electronic cards. These meters repay quickly because they allow the use of "day" and "night" (cheaper) tariffs. World experience testifies that between 8% and 10% of customers require a prepayment, these are usually persistent defaulters whom energy supplying company install meters at its own expense (ZB, 2.18.98, "*Electricity Needs Counting*").

### 2.2.2. Procedures of Providing Heating, Water Supply and Drainage

New "Procedures..." are approved by the Decree of the CM dated 12.30.97, No 1497. Several positive moments are mentioned by the press, in particular:

- Conclusion of agreements on providing services between suppliers and consumers;
- Obligation of service providers to inform consumers about inadequate services to requirements of this Procedures;
- Service payments are reduced if service quality deteriorates;
- Payment can be accomplished by check through a cash letter for a monthly transfer of a determined payment from a consumer's account to an account of a supplier.

If a single water meter is installed for an apartment house (or for a group of apartment houses), tenants will pay for water according to the readings of a meter proportionally to a number of dwellers, i.e., all will pay a similar amount irrespective of the amount of water consumed. Such a procedure was criticized (ZB, 3.11.98, *New Year Souvenir from Government*”).

### 2.3. ZHEKs

In contrast to Ukraine, housing maintenance in developed countries is a profitable business. But absence of a logical and balanced national program prevents private structures from entering this market in Ukraine. Besides ZHEKs, at present communal services are rendered also by an insignificant number of private firms – about 80 of them in the whole country. ZHEKs are not privatized because the state has not issued strict terms and rules of such a privatization that would have ensured a predictable policy of privatized housing management organizations. For example, despite the positive experience of a neighboring Uzhgorod, Ivano-Frankivsk municipal deputies opposed ZHEKs privatization.

Donetsk oblast state administration issued an order that anticipates bringing in private commercial structures for maintaining housing resources in the seven largest oblast towns and allows condominiums to improve maintenance of communal housing resources. A contest among private firms estimated their professional level, business-plans, and proposals for improving housing resources maintenance, saving the money for tenants and owners of apartments that the state allocates in the form of subsidies. Municipal housing departments concluded several highly profitable agreements with firms that won the tender. The press reported that similar contests have been held in some raions of Kyiv and Vinnitsa.

ZHEK employees mention a number of restrictions that negatively influence the quality of services they provide the population. For example, they cannot independently accomplish repair work and must hire contractors. In contrast to private firms, ZHEKs also cannot be engaged in commercial activity.

Where private firms are used to provide communal services, they are financed from the local budget by the raion department of housing and communal services. A raion department approves an estimate of expenditures and even a staffing plan, at times cutting urgently needed jobs and making employees hold more than one office. It is much more advantageous to conclude direct agreements with condominium associations. However, for the time being tenants and apartment owners are somewhat afraid of innovations (HC, No 32/97, *“Private ZHEKs are Advantageous”*; No 27/97 *“Yakybor – ZHEKs Liquidator”*; HU, 10.14.97 *“Private ZHEK is Advantageous”*; 7.31.97, *“Alternative ZHEK”*; UC, 9.20.97, *“Afonya Is Not Our Fellow Traveler”*; KV, 3.11.98, *“For ZHEK Not to Be Treated as Drunken Plumber, Its Head Becomes Deputy”*; Den, 9.9.97, *“It’s Hard for ZHEKs to Break Free”*; 3.10.98, *“Want to Abandon ZHEK’s Services? Then Duly Pay for Them!”* ).

### 2.4. Debts of Population for Housing and Communal Services

The problem of non-payments consists of several components:

- Debts of the population for housing and communal services that originated because of wage and pension arrears;
- Mutual debts between suppliers of housing and communal services: for example, a water supplier owed an energy supplying company for electricity, because, in its turn, it was underpaid for water supply and drainage; a heating system owes money to a gas supplier because the population does not pay for heating (KV, 1.21.98, *“Power Engineers Frightened “VodoKanal” and Whole City”*; 10.16.97, *“Heating Season in Ternopil Under Threat of Stoppage”*);
- Local budgets do not transfer money to cover the costs of housing subsidies and privileges (Den, 8.20.97, *“Elevators On Strike As Well”*);

Possible methods of debt repayment discussed in the press:

1. Disconnection and shutoff of defaulters (with exception of war and labor veterans and low-income families). Militia is also to be drawn into the process: courts try criminal cases against in-

- dividuals who do not pay for gas and electricity for a prolonged period (Den`, 1.14.98, *“There Is High Order for It”*; KV, 12.1.97, *“Apartment Houses Cut Off Heat an Gas”*);
2. Collection of payments directly from the population, not through ZHEKs (for example, payment for heating in Kyiv city) (Den`, 7.30.97, *“Pipe is the Problem. Cold Pipe”*);
  3. “In kind” payment for housing and communal services, because this is a method of settlements between many enterprises and their employees, for example, payment with gauntlets, bench tools, etc. (KV, 12.5.97, *“Want to Get Warm? Give Up Gauntlets”*);
  4. Encouragement of disciplined payers through drawing prizes that may include free of charge liquid gas-cylinder or 75 kWh of electricity (KV, 8.5.97, *“Government Announced Another Game of Chance for Those Who Pay for Housing”*; 4.8.98, *“Persistent Defaulters Attracted by Communal Spice-Cake”*; Den`, 1.22.98, *“Electricity Raffled Off in Lebedyn”*).
  5. Mutual settlement of debts between pensioners who do not pay for housing and communal services and the state that does not compensate them for the loss of savings caused by past inflation – a proposal made by People’s Deputy Ivan Chyzh (HU, 10.14.97, *“Debt Exchange Proposed”*).

When blocks of flats are cut off, tenants that regularly pay for electricity may suffer. ZHEKs have no real levers of influence, they are only authorized to make a notary endorsement. Then a court enforces a debtor’s payment: an attachment is made on his property and debts are paid off. In the past this was not widely implemented, because a ZHEK has to pay a toll equal to 5% of a debt in order to go to court, while it is not sure whether this debt will be repaid (Den`, 7.26.97, *“May Be They Just Forget to Pay”*).

In Chuguyiv (Kharkiv oblast) 95% of consumers pay for water, 90% for telephone, 85% for electricity, and only 50% pay for heating and hot water. It is understood that people pay for those services that may be easily cut off. Meanwhile, it is obvious, that payments for services depend greatly on quality and stability of services. As to heating, radiators may be hot or just warm – but nevertheless, pay you must! (Den`, 10.29.97, *“Pay and Get Warm or Don’t Pay and Freeze to Death”*).

## 2.5. Collection of Communal Payments

In May 1995 Lutsk introduced a centralized computer system of payment for communal services that united a computer center, bank offices, subsidy agencies, passport registration offices, and communal services (UC, 4.16.97, *“Managed Without Foreign Credits”*). This system allowed:

- To abandon traditional pay-books;
- To improve payment discipline of the population;
- To react immediately to tariff changes;
- To cut down drastically terms of reporting and account activities;
- To calculate and provide subsidies in compliance with a simplified procedure.

A similar settlement system will be introduced in Zaporizhia and Kharkiv oblast. According to the decision of the Kharkiv oblast administration a similar unified payment center will be opened in February 1999 and the system will be fully operational after computers will be installed in all local branches of the Savings Bank (Den`, 1.13.98, *“Water From Faucets, Electricity – From Sockets”*; KV, 7.11.97, *“Zaporizhia Introduces New System of Collecting Housing and Communal Payments”*).

With assistance of a regional branch of the Antimonopoly Committee, the Savings bank blocked the introduction of an automatic system of communal payments invented by the “BAC” firm in Kremenchuk (Poltava oblast). The Savings Bank maintains that the municipal administration created conditions for monopolizing communal payment services. But after a decision of the Antimonopoly Committee, the Kyiv branch of the Savings bank began installing its own automatic system in Poltava. It was also discovered that the Savings Bank was the only agency that delayed a transfer of money for a week and more (Biznes, 12.1.97, *“BAC Was Done Away With Under Poltava...”*).

The way that the subscriber's department of "Odessagaz" operates is another negative example. The department registers subsidies and recalculations and issues new pay books to pay for. People waited in long lines to receive pay books because there were not enough computers. Besides, working hours of the department – only 6 hours a day with a two-hour lunch break – are inconvenient for customers. After all, it takes only 20-30 seconds for "Miskelectromerezha" (Municipal Electric Company) to issue similar pay books (KV, 10.24.97, *"Inhabitants of Odessa Would Like to Part with Their Money..."*).

## 2.6. Problem of Gas Meters

A dispute still goes on in Ukraine as to types of gas meters to be installed – whether they should be domestically produced or should also include foreign-made meters (including those produced by joint ventures). Below are principal characteristics of these gas meters reported in numerous publications:

### 1. Domestic rotor meters are:

- Imperfect on conclusion of "UkrGas," as they allow unmeasured flow of gas (a sensitivity limit comprises 60 L/Hr, and more, in contrast to more sensitive membrane meters). Sometimes these meters stop functioning or fail to account gas consumed by one or two burners, meters of this type are susceptible to magnetic radiation;
- Of 9.6 million gasified apartments, less than 12% are equipped with gas meters.
- Only 0.4% of the membrane meters have various defects, while for the rotor meters this figure comprises 2.5%;
- Due to their high prices and low accuracy, rotor meters are not used domestically in other countries;
- Rotor meters are called "cunning" because "skilled craftsmen" know how to cut down the volume of registered gas;
- Production capacity of domestic enterprises is insufficient – the meters production plan specified by a diversified economy production program in 1996 was 45% fulfilled.

### 2. Membrane meters produced by "SHUMKO" joint venture under French license are:

- Precise – they are sensitive enough to register small volumes of gas consumption (one or two burners are turned on), but even the slightest gas leak;
- Reliable -- proved by trials under adverse conditions and gas overflow;
- Protected against consumer intrusion to tamper with meter readings;
- However, at the request of domestic producers, customs duties on imported meters were increased from 5% to 40%;
- As on 9.1.97, four joint ventures in Ukraine were capable of producing 507.000 meters each year, twice as much as produced by 7 enterprises of the Ministry of Industrial Policy.
- The "SHUMKO" joint venture can rapidly increase its production from 250.000 to 350.000 meters a year.

Thus, implementation of domestically produced rotor meters slows down equipping housing with accurate gas meters, reduces the reliability and precise registering of the volume of a consumed gas, and, in the long run, increases state expenditures. "UkrGaz" informs that the IMF allocates a \$ 80.5 million loan to purchase meters and a tender will be organized among producers, both Ukrainian and foreign (HU, 12.4.97, *"Cunning Meter: Who Needs It?"*; 3.10.98, *"SHUMKO Knows Where Gas Flows"*; UC, 11.13.97, *"Can 'Round Table' Solve A cute problems?"*; 9.16.97, *"Much Ado About Meters"*).

The importance of equipping housing with meters is proved by figures that characterize gas consumption in Kharkiv oblast. In summer consumers burn about 3 million m<sup>3</sup> gas per day, in winter – 9 million m<sup>3</sup>, in off-season when it is already cold in apartments, and radiators are still cold as well, 20 million m<sup>3</sup> of gas are consumed (Den', 10.29.97, *"Pay and Get Warm, or Do Not Pay and Get Cold"*).